

July 2014

Market Review- First Quarter

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Recommended Citation

Unknown, "Market Review- First Quarter" (2014). *Morgan Documents*. Book 72.
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MARKET REVIEW — FIRST QUARTER 1968

CONCLUSIONS

1. The total predicted company sales potential is acceptable.
2. The total predicted company shop load potential is acceptable.
3. The total gross profit prediction is marginal; it is too close to the minimum acceptable levels of \$3-1/2-million total, or 15% (after absorptions) to sales.
4. MORGAN needs a new base-load business to replace that portion of the MORGOIL shop load and profit that is predicted will be lost. This is necessary to ride out the Rolling Mill cyclic dips in the future.
5. MORGAN needs its present developments (Planned New Products) to give adequate bookings and shop load in the future.
6. The predicted profit to be gained from these present developments is not adequate. This emphasizes the need of seeking adequate profits with new products or new ventures, and of seeking a base-load business with an adequate profit potential. Such a base-load business probably will not be in the rolling mill field or the steel field. It should also be noted that although the profit gain from present developments is predicted to be low, the profit without them is below the acceptable levels.
7. The MORGOIL business has a good long-term profit potential, but not excellent—and the difference is significant. The MORGOIL Department will not carry the high percentage of Company profits in the future that it has in the past, or will it fill in the cyclic valleys of the rolling mill business as it has in the past. We must face up to the fact that the MORGOIL bearing is gradually being technologically replaced by the roller bearing. This does not indicate the death of the MORGOIL business by any means, but it does indicate the need for realistically evaluating the profit potential left. This Market Review predicts about \$1-million MORGOIL gross profit per year for the foreseeable future.

There are 3 main fields of application left to the MORGOIL bearing—the tandem hot strip mill, the tandem cold mill, and the high-speed

Market Review — 1968 (cont)

single stand or tandem temper pass mill. There are a few other special applications where MORGOILS can be sold, but we must admit it is difficult to make money on them. Every MORGOIL sales job is a battle, hence sales costs are rising.

MORGOIL developmental funds are being spent predominantly for strengthening present products. This is worthwhile; however, it is significant that we have not been successful in finding a new source of income through MORGOIL developments.

The Morgan Construction Company must also recognize that their rolling mill competitors' base-load business — mill rolls — is reasonably stable. Rolls are an expensive expendable with assured volume and relatively fixed prices. Rolls are also often used as a negotiable item in the sale of mills. MORGAN should also recognize that their rolling mill competitors cover the full breadth of ferrous and nonferrous rolling applications. MORGAN, on the other hand, specializes in a relatively low profit part of the Steel Industry. We must recognize that although the Steel Industry is a very basic and healthy industry, it is not considered a growth industry and also that there is a surplus of rolling mill capacity in the USA and the "free world".

8. The Combustion Control Department should seek new products in addition to their scrap preheater. This new product is an excellent one but they need several more like it to present a balanced picture. Air pollution control is a growth field that looks attractive.
9. The Wire Machinery business forms a good base for new product expansion; however, this department is suffering from depressed prices and profits. New products should offer acceptable, real, profit potential, or offer specific, long-term incentives to undertake them without adequate profits. Such an incentive might be getting a firm foothold in the nonferrous field.
10. Of MORGAN's existing products the Rolling Mill business offers the best long-term strength. We must, however, protect the proprietary nature of rod mills in every way we can because it is the last truly proprietary business that MORGAN has. We must also become competitive in bar mills, billet mills, and small mills (if we go into that field).

Market Review — 1968 (cont)

Such a program involves aggressive and imaginative selling, realistic and accurate pricing, and a true understanding of our costs. This market study shows that the Rolling Mill profit levels are suppressed — both present products and present developments.

It would appear that some additional effort in the rolling mill replacement part field would be profitable.

11. MORGAN shop costs must be factually analyzed to determine where we are competitive and where we are not. There is clear evidence that our shop is not offering balanced manufacturing facilities for our type of business. It must be recognized that MORGAN's market position has changed. This shop was profitable when most MORGAN products were in a proprietary position — this is no longer true.

It is pertinent to point out that our rolling mill competitors have the following shop characteristics:

- Foundry facilities
- Forging facilities to various degrees
- Fabrication facilities
- Heat-treating facilities
- Location permits lower transportation costs of raw material & finished product
- All of this gives the opportunity for better control of inventory, complete service subcontracting during slow periods, and easier creation of optimum machine overheads

It is not suggested that MORGAN can or should meet all these conditions, but it is felt that some of them will have to be met in order to create balanced facilities.

Many of these obstacles and those mentioned in item #7 have been successfully faced in the past; however, they take on new meaning in our present market position. It is recommended that a Task Force be assigned to analyze manufacturing costs and shop facilities in light of market conditions we now face. This is essential to (1) making money on our present products, and (2) assisting us in a wise decision on new products.

Market Review—1968 (cont)

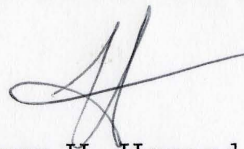
12. In general, this market review indicates the following:

1. MORGAN should continue to improve its present products with reasonable expenditures, but should not dissipate all of its developmental resources on present products.
2. MORGAN should seek new product ventures in its present markets (basically steel and nonferrous), but only if such new products have a proprietary advantage. It is not an attractive market to enter with "just another product".
3. MORGAN should seek a new product, or products, out of the Steel Industry—and probably out of the rolling mill field—in a growth market with adequate long-term profit potential and, hopefully, with significant shop load potential.

13. The marketing function involves:

1. Maintaining the product plan on present products and new products as outlined in this review. This involves periodically measuring the objectives and performance of the plan.
2. Preliminary new product and new venture screening.
3. New product management until the product becomes established.
4. The responsibility of relating the "Market Plan" to the "Corporate Plan". The latter includes a definition of the Company's objectives in terms of sales volume, shop load, number of employees, foreign activities, profits, markets, and a definition of resources—both financial and executive—available to assign to new products or new ventures.

The Company needs a formal marketing function—actively supported by the Directors—to accomplish this.



Warren H. Howard

WHH:jpk
18 April 1968